NO. 013

Bending Spoons: A Capital Cycle Play

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Learning about history's great capital allocators makes me wonder who will be the great allocators of the future. The gentlemen at Bending Spoons are not a bad shout. Not because of the specific acquisitions they make, but rather their broader strategy. Silicon Valley has a bad habit of moving on too quickly after a company gets the “irreversible” down round. Yet it is the venture capital and there short term thinking that makes it inevitable for the likes of an Airtable to go from 11 billion to a measly 2 billion (EV). An orangutan could tell you that Airtable is not worth 11 billion, not today and not in 2021; too bad orangutans can’t network.

Broadly though, Bending Spoons is capitalizing on the low part of the capital cycle, post-asset prices falling, after the ZIRP era ended. Ironically, in the valley, one cycle does not end, but another one begins. Silicon Valley moves fast. There are a plethora of zombie startups that fundamentally are worth less than the price tag they were awarded, and Bending Spoons is going on a shopping spree. They are consolidating businesses at discounts to their fair value, and are reviving old brands that still have some consumer relevance. Enterprise companies that still have customer loyalty and are upselling them to grow FCF.

They are wise to ignore the hype of the current AI capital cycle; while everyone is focused on another hype train, Bending Spoons is doing what every good capital allocator does: take what the market gives them and become creative. Take Cook, for example: realizing that the cash the iPhone threw off needed a place to go, he gave it back to shareholders and compounded value, and built a services business which has created double-sided customer lock-in.

Airtable is a clear fable on the risk growth stage investing poses. Early stage may have more risk in the short term, but in the long term, practically any viable exit can deliver >1 DPI. Growth stage not so much, as seen with Softbank and other late-stage investors; investing at the peak of a capital cycle is just blatantly dumb. This ZIRP era has funded new capital into venture and has permanently altered the structure of venture; most companies will stay private too long, the capital cycle will lead to asset prices falling and major down rounds. Had they gone public earlier in the cycle, there is pressure on management to build a real business; that pressure does not exist in the private markets. Perhaps this is the main advantage of the public markets. The ROFR clause will never allow any kind of activist investor to force founders to build something real. Investors then mark down the value eventually, and this hurts DPI. Not that anyone cares about that in the current environment. This is why capital cycle investing is so appealing: it is a play on human nature, inevitability, and patience.

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